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Dear Client,

In the early hours of January 3rd, to the surprise of Nicolás Maduro and his wife, Cilia, the US military entered their Caracas compound with uncanny precision to capture and extradite them to the United States to face narco-terrorism, corruption, and drug trafficking charges. Cuba, Iran, and Russia may have lost a vital source of oil not to mention the impact this event has on their respective political regimes. This political instability along with a weaker US dollar, tariffs, rising long term interest rates, and gold and silver reaching all-time highs means that the New Year is off to a dramatic start! Aside from the mid-term elections and the Super Flu, what else did I leave out? The 2026 word of the year just might be "unpredictability."

This quarter marked the end of three prevailing manias. First is the artificial intelligence (AI) bubble. Companies are spending billions with no profit in sight, using creative accounting to hide debt, and engaging in circular financing—where a supplier invests in its own service providers (e.g., Nvidia and CoreWeave). In 2000, many knew that the Internet had enormous potential, but that didn't stop many Internet related companies from losing over 75% of their value or from going bankrupt. AI will change the world, but we tend to overhype technology in the short term while drastically underestimating its impact in the long run.

Second, the cryptocurrency craze has seen stock market darlings such as Strategy (MSTR) plummet by 66% over the past six months while Coinbase (COIN) and Bitcoin also declined 40+%. With hindsight we can see key mania stock peaks in August and November last year similar to the dotcom stock burst in 2000. By the way, no one has yet to propose a true use-case for cryptocurrency. Coincidentally, the same computer chips that are used for AI are the same chips used to "create" cryptocurrencies such as Bitcoin.

Last, electric vehicles (EVs) sales saw dramatic declines as government subsidies were eliminated in 2025. Last month, Ford took a \$19.5 billion write-down (i.e. formally admitting that your investment is no longer worth its original value) as it is cancelling multiple EV models and ending a battery joint venture with a South Korean company. Last week General Motors announced that it will record a \$7.1 billion "special charge" (i.e. a special way to say that we, GM, lost \$7.1 billion dollars but want to make it sound better) in its upcoming earnings due to weak demand for EVs. Toyota had it correct all along with its hybrid vehicles.

Since 2023, the Magnificent Seven stocks (NVDA, MSFT, AAPL, GOOGL, AMZN, META, and TSLA) in the S&P 500 account for a majority of the S&P 500 returns. Now, the stock market is finally starting to broaden out. The neglected, undervalued stocks that manufacture and produce real products that have real earnings and dividends are finally off to a great start in 2026! We are preparing for the best possibilities while defending against the worst surprises. Get your Ouija board ready - this year is shaping up to be a wild ride.

Very truly yours,

Richard J. Fruth